

## Germany: Inflation adds to arguments for ECB action in September

Lots of data noise coming out of Germany but inflation, as measured by European standards, has dropped, providing further arguments for ECB action in September



According to the just-released first estimate, based on the results of several regional states, German headline inflation came in at 1.1% year-on-year in July, from 1.5% in June. The national inflation measure actually increased to 1.7% YoY from 1.6% in June. This year's strong discrepancy between the national and the European measure of German inflation is mainly caused by methodological changes to the measurement of package holidays in the European measure and changes to the weights of different components in the national measure.

Looking at the available components in several regional states, there were opposing trends in price developments. While prices for heating oil have started to drop compared with last year, reflecting lower global prices, prices for electricity and gas are still up. At the same time, prices for food have started to accelerate, probably early signs of the dry and warm summer, while costs for education and communication continue to fall. Overall, these diverging trends seem to offset each other, keeping core inflation measures broadly unchanged.

The most outstanding development in today's inflation numbers is the sharp increase in YoY

inflation in clothing and shoes. In some states, the rate was even as high as 4% YoY and two to three times as much as in June. One possible and a bit tongue-and-cheek explanation for this development could be a base effect from stores dumping merchandise of the national football team last year after the early exit from the World Cup.

Earlier today, fading consumer confidence sent another warning signal that the industrial slump of the last 12 months, as well as ongoing global uncertainty, have finally started to leave their mark on the domestic economy. Interestingly, German consumers' income expectations actually increased but the willingness to buy dropped to its lowest level since October 2015. It looks as if German consumers are gradually closing their wallets.

Looking ahead, with negative base effects from oil prices and the cooling economic outlook, German headline inflation will, in our view, continue to fluctuate between 1% and 1.5% in the coming months, adding to the arguments for new ECB action in September.

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